

# EXHIBIT A

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**FORM 10-K**

**PSYCHIATRIC SOLUTIONS INC - PSYS**

**Filed: February 25, 2010 (period: December 31, 2009)**

Annual report which provides a comprehensive overview of the company for the past year

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-K**

(Mark One)

**Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the fiscal year ended December 31, 2009 or**

**Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the transition period from \_\_\_\_\_ to \_\_\_\_\_**

Commission file number 0-20488

**Psychiatric Solutions, Inc.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State or Other Jurisdiction of Incorporation or  
Organization)

**23-2491707**

(I.R.S. Employer Identification No.)

**6640 Carothers Parkway, Suite 500  
Franklin, TN 37067**

(Address of Principal Executive Offices, Including Zip Code)

**(615) 312-5700**

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title Of Each Class	Name of Each Exchange On Which Registered
Common Stock, \$.01 par value	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

Note — Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicated by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer   
(Do not check if a smaller reporting company) Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

As of June 30, 2009, the aggregate market value of the shares of common stock of the registrant held by non-affiliates of the registrant was approximately \$1.0 billion. For purposes of calculating such aggregate market value, shares owned by directors, executive officers and 5% beneficial owners of the registrant have been excluded.

As of February 22, 2010, 56,263,260 shares of the registrant's common stock were outstanding.

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### **PART I**

*Unless the context otherwise requires, all references in this Annual Report on Form 10-K to "Psychiatric Solutions," "the Company," "we," "us" or "our" mean Psychiatric Solutions, Inc. and its consolidated subsidiaries.*

#### **Item 1. Business**

##### **Overview**

We are a leading provider of inpatient behavioral health care services in the United States. We operate 94 inpatient behavioral health care facilities with approximately 11,000 beds in 32 states, Puerto Rico, and the U.S. Virgin Islands. In 2009, we opened Rolling Hills Hospital, an 80-bed inpatient facility in Franklin, Tennessee, acquired a 131-bed inpatient behavioral health care facility located in Fargo, North Dakota, acquired a 90-bed inpatient behavioral health care facility located in Panama City, Florida, and sold our employee assistance program ("EAP") business for approximately \$68.5 million, net of fees and expenses. We generated revenue of approximately \$1.8 billion and \$1.7 billion for the years ended December 31, 2009 and 2008, respectively. We believe that our primary focus on the provision of inpatient behavioral health care services allows us to operate more efficiently and provide higher quality care than our competitors.

Our inpatient behavioral health care facilities accounted for 93.0% of our revenue for the year ended December 31, 2009. These inpatient facilities offer a wide range of inpatient behavioral health care services for children, adolescents and adults. We offer these services through a combination of acute inpatient behavioral facilities and residential treatment centers ("RTCs"). Our acute inpatient behavioral facilities provide the most intensive level of care, including 24-hour skilled nursing observation and care, daily interventions and oversight by a psychiatrist and intensive, highly coordinated treatment by a physician-led team of mental health professionals. Our RTCs offer longer term treatment programs primarily for children and adolescents with chronic behavioral health problems. Our RTCs provide physician-led, multi-disciplinary treatments that address the overall medical, psychiatric, social and academic needs of the patients.

Other behavioral health care services accounted for 7.0% of our revenue for the year ended December 31, 2009. This portion of our business primarily consists of our contract management business and a managed care plan in Puerto Rico. Our contract management business involves the development, organization and management of behavioral health and rehabilitation programs within medical/surgical hospitals.

Psychiatric Solutions was incorporated in the State of Delaware in 1988. Our principal executive offices are located at 6640 Carothers Parkway, Suite 500, Franklin, Tennessee 37067. Our telephone number is (615) 312-5700. Information about Psychiatric Solutions and our filings with the Securities and Exchange Commission can be found at our website at [www.psysolutions.com](http://www.psysolutions.com).

##### **Our Industry**

According to the National Association of Psychiatric Health Systems' 2008 Annual Survey, an estimated 26.2% of Americans ages 18 and older, or slightly more than one in four adults, suffer from a diagnosable mental disorder in a given year, and about 6%, or about one in seventeen, suffer from a serious mental illness.

The behavioral health care industry is highly fragmented with only a few large national providers. During the 1990s, the behavioral health care industry experienced a significant contraction following a long period of growth. The reduction was largely driven by third-party payors who decreased reimbursement, implemented more stringent admission criteria and decreased the authorized length of stay. We believe this reduced capacity has resulted in an underserved patient population.

Reduced capacity, mental health parity legislation, and increased demand for behavioral health care services have resulted in favorable industry fundamentals over the last several years. Behavioral health care providers have enjoyed increased reimbursement rates and admissions and stabilized lengths of stay. According to the National Association of Psychiatric Health Systems, inpatient admissions increased approximately 3.5% from 2006 to 2007, and total inpatient days of care increased 3.2% from 2006 to 2007. In order to meet strong demand, facilities have been adding beds resulting in a 2% increase in licensed beds within existing facilities from 2006 to 2007. Following a rapid decrease during the early 1990s, inpatient average length of stay stabilized between 9 and 11 days from 1997 to 2007. The inpatient average length of stay was 9.7 days and 9.6 days in 2007 and 2006, respectively. The average inpatient net revenue per day in 2007 was \$616 for facilities with less than fifty beds, \$685 for facilities with between fifty and one hundred beds and \$615 for facilities with more than one hundred beds. The average residential net revenue per day in 2007 was \$346 for facilities with less than fifty beds, \$420 for facilities with between fifty and one hundred beds and \$358 for facilities with more than one hundred beds. Total patient days of care decreased 3.3% from 2006 to 2007 for RTC facilities, while average length of stay increased 2.4% to 168 days in 2007 from 164 days in 2006.

##### **Our Competitive Strengths**

We believe the following competitive strengths contribute to our strong market share in each of our markets and will enable us to continue to successfully grow our business and increase our profitability:

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- *Singular focus on behavioral health care* — We focus primarily on the provision of inpatient behavioral health care services. We believe this allows us to operate more efficiently and provide higher quality care than our competitors. In addition, we believe our focus and reputation have helped us to develop important relationships and extensive referral networks within our markets and to attract and retain qualified behavioral health care professionals.
- *Strong and sustainable market position* — Our inpatient facilities have an established presence in each of our markets, and many of our owned and leased inpatient facilities have the leading market share in their respective service areas. We believe that the relationships and referral networks we have established will further enhance our presence within our markets. In addition, many of the states in which we operate require a certificate of need to open a behavioral health care facility, which may be difficult to obtain and may further preclude new market participants.
- *Demonstrated ability to identify and integrate acquisitions* — We attribute part of our success in integrating acquired inpatient facilities to our due diligence review of these facilities prior to completing the acquisitions as well as our ability to retain key employees at the acquired facilities. We employ a disciplined acquisition strategy that is based on defined criteria including quality of service, return on invested capital and strategic benefits. We also have a comprehensive post-acquisition strategic plan to facilitate the integration of acquired facilities that includes improving facility operations, retaining and recruiting psychiatrists and expanding the breadth of services offered by the facilities.
- *Diversified payor mix and revenue base* — As we have grown our business, we have focused on diversifying our sources of revenue. For the year ended December 31, 2009, we received 28.7% of our revenue from Medicaid, 13.5% from Medicare, 37.5% from HMO/PPO, commercial and private payors, 14.9% from various state agencies and 5.4% from other payors. We receive Medicaid payments from more than 30 states. Substantially all of our Medicaid payments relate to the care of children and adolescents. We believe that children and adolescents are a patient class that is less susceptible to reductions in reimbursement rates. For the year ended December 31, 2009, no single inpatient facility represented more than 2.2% of our revenue.
- *Experienced management team* — Our senior management team has extensive experience in the health care industry. Joey A. Jacobs, our Chairman, President and Chief Executive Officer, has over 30 years of experience in various capacities in the health care industry. Our senior management operates as a cohesive, complementary group and has extensive operating knowledge of our industry and understanding of the regulatory environment in which we operate. Our senior managers employ conservative fiscal policies and have a successful track record in both operating our core business and integrating acquired assets.
- *Consistent free cash flow and minimal maintenance capital requirements* — We generate consistent free cash flow by profitably operating our business, actively managing our working capital and having low maintenance capital expenditure requirements. As the behavioral health care business does not require the procurement and replacement of expensive medical equipment, our maintenance capital expenditure requirements are less than that of other facility-based health care providers. Historically, our maintenance capital expenditures have amounted to approximately 2% to 3% of our revenue. In addition, our accounts receivable management is less complex than medical/surgical hospital providers because there are fewer billing codes for inpatient behavioral health care services.

## **Our Growth Strategy**

We have experienced significant growth in our operations as measured by the number of our facilities, admissions, patient days, revenue and net income. We intend to continue growing our business and increasing our profitability by improving the performance of our inpatient facilities and through strategic acquisitions. The principal elements of our growth strategy are to:

- *Continue to Drive Same-Facility Growth* — We increased our same-facility revenue by approximately 5.3% for the year ended December 31, 2009 compared to the year ended December 31, 2008. Same-facility revenue also increased by approximately 8.4%, 6.9%, and 9.0% for the years ended December 31, 2008, 2007, and 2006, respectively, compared to the immediately preceding years. Same-facility revenue refers to the comparison of the inpatient facilities we owned during a prior period with the comparable period in the subsequent period, adjusted for closures and combinations for comparability purposes. We intend to continue to increase our same-facility revenue by increasing our admissions and patient days and obtaining annual reimbursement rate increases. We plan to accomplish these goals by:
  - continuing to provide high quality service;
  - expanding bed capacity at our facilities to meet demand;
  - expanding our services and developing new services to take advantage of increased demand in select markets where we operate;
  - building and expanding relationships that enhance our presence in local and regional markets; and

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**Psychiatric Solutions, Inc.**  
**Selected Financial Data**  
**As of and for the Years Ended December 31,**

	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
(In thousands, except per share amounts and operating data)					
<b>Income Statement Data:</b>					
Revenue	\$ 1,805,361	\$ 1,696,116	\$ 1,414,700	\$ 991,724	\$ 689,408
Costs and expenses:					
Salaries, wages and employee benefits	1,005,204	938,363	787,301	559,715	377,762
Other operating expenses	452,356	438,499	365,258	255,206	193,851
Provision for doubtful accounts	36,414	34,334	27,343	19,364	13,678
Depreciation and amortization	44,778	38,843	30,113	20,001	14,335
Interest expense	71,549	75,982	73,887	39,967	26,169
Other expenses	—	—	8,179	—	21,871
Total costs and expenses	<u>1,610,301</u>	<u>1,526,021</u>	<u>1,292,081</u>	<u>894,253</u>	<u>647,666</u>
Income from continuing operations before income taxes	195,060	170,095	122,619	97,471	41,742
Provision for income taxes	74,889	64,457	46,200	36,785	16,080
Income from continuing operations	<u>\$ 120,171</u>	<u>\$ 105,638</u>	<u>\$ 76,419</u>	<u>\$ 60,686</u>	<u>\$ 25,662</u>
Net income attributable to PSI stockholders	<u>\$ 117,617</u>	<u>\$ 104,953</u>	<u>\$ 76,208</u>	<u>\$ 60,632</u>	<u>\$ 27,154</u>
Basic earnings per share from continuing operations attributable to PSI stockholders	<u>\$ 2.16</u>	<u>\$ 1.89</u>	<u>\$ 1.40</u>	<u>\$ 1.15</u>	<u>\$ 0.57</u>
Basic earnings per share attributable to PSI stockholders	<u>\$ 2.12</u>	<u>\$ 1.89</u>	<u>\$ 1.40</u>	<u>\$ 1.15</u>	<u>\$ 0.61</u>
Shares used in computing basic earnings per share	55,564	55,408	54,258	52,953	44,792
Diluted earnings per share from continuing operations attributable to PSI stockholders	<u>\$ 2.14</u>	<u>\$ 1.87</u>	<u>\$ 1.37</u>	<u>\$ 1.12</u>	<u>\$ 0.55</u>
Diluted earnings per share attributable to PSI stockholders	<u>\$ 2.10</u>	<u>\$ 1.87</u>	<u>\$ 1.37</u>	<u>\$ 1.12</u>	<u>\$ 0.59</u>
Shares used in computing diluted earnings per share	56,116	56,267	55,447	54,169	46,296
<b>Balance Sheet Data:</b>					
Cash	\$ 6,815	\$ 51,271	\$ 39,970	\$ 18,520	\$ 54,533
Working capital	177,918	233,906	161,681	103,287	138,843
Property and equipment, net	931,730	820,453	678,012	529,658	368,977
Total assets	2,507,240	2,505,990	2,179,505	1,581,746	1,176,131
Total debt	1,187,079	1,314,397	1,172,024	743,307	482,389
Stockholders' equity	1,030,335	889,885	754,742	627,779	539,712
<b>Operating Data:</b>					
Number of facilities at period end	94	91	86	70	55
Number of licensed beds	11,290	10,520	9,931	8,114	6,396
Admissions	177,967	163,616	138,454	106,451	76,795
Patient days	2,881,063	2,749,658	2,406,368	1,875,635	1,413,231
Average length of stay	16	17	17	18	18